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The Effect of Regional Original Revenue and Special Allocation Funds on the Financial Performance of the Regional Government of Gorontalo Province in 2020-2025

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Abstract

This study aims to determine the influence of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) on the Financial Performance of the Regional Government of Gorontalo Province in 2020–2025. This study uses a quantitative method with secondary data obtained from the Budget Realization Report (LRA) and local government financial statements published by the local government in Gorontalo Province. The sampling technique uses the saturated sample method, namely all districts/cities and the Gorontalo Provincial government that meet the research criteria during the 2020–2025 period. The data analysis technique used was multiple linear regression analysis with the help of the Statistical Package for the Social Sciences (SPSS) program.
Based on the results of the study, it is shown that Regional Original Revenue has a positive and significant effect on the Financial Performance of Regional Governments. Special Allocation Funds affect the Financial Performance of Regional Governments. Simultaneously, Regional Original Revenue and Special Allocation Funds have a significant effect on the Financial Performance of the Regional Government of Gorontalo Province in 2020–2025.

Keywords: *Regional Original Revenue, Special Allocation Funds, Financial Performance of Local Governments*

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ITRODUCTION

Local governments have a strategic role in encouraging regional development through efficient and responsible financial management. This is reflected in the financial performance of local governments, which illustrates the extent to which the government is able to manage its financial resources effectively to achieve development goals and improve community welfare. According to (Blongkod 2021:25), the financial performance of local governments is the ability of a region to explore and manage local original financial resources to meet its needs in order to support the running of the government system, services to the community, and regional development without being completely dependent on the central government.

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As a form of accountability for the flexibility of fund management, (Wuryandini et al. 2025) stated that financial performance is the main indicator that describes the good and bad condition and performance of an entity in a certain period of time. Evaluation of this performance has a crucial function as a basis for consideration in decision-making as well as a form of accountability. Within the scope of local government, the achievement of optimal financial performance—especially through the independence of Regional Original Revenue (PAD) and the efficiency of the management of Special Allocation Funds (DAK)—is an important foundation to measure the government's success in implementing sustainable development.

In the scope of fiscal decentralization, there are differences in the characteristics of sources of revenue between the provincial level and the district/city level which has implications for their financial capacity. Based on Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, Regional Original Revenue (PAD) at the provincial level is generally supported by a macro-scale tax base, while the structure of PAD at the district/city level is more dependent on local consumption and service activities. This difference in revenue base often creates an imbalance in the level of fiscal independence between provincial and district/city entities.

Based on the data of the Budget Realization Report obtained from the DGT of the Ministry of Finance, it can be known the growth rate of the realization of PAD and DAK in Gorontalo Province during the 2020-2025 period as presented below

Table 1 Growth of PAD Realization and DAK in Gorontalo province in 2020-2025

Tahun	PAD	%	DAK	%
2020	414,86		445,5	
2021	510,80	23	445,05	41.323
2022	510,34	-9	300,64	-99
2023	470,85	-8	321,78	7
2024	538,19	14	325,41	1
2025	520,68	-3	225,87	-30

Based on the data in the table above, the realization of Regional Original Revenue (PAD) in Gorontalo Province shows growth fluctuations during the period 2020 to 2025. The highest growth was recorded in 2021. However, in 2022 and 2023 there was a growth contraction. Although it had experienced a recovery in 2024, the realization of PAD was corrected again in 2025. This trend shows that the region's internal fiscal capacity still faces challenges in maintaining the consistency of sustainable growth.

The Special Allocation Fund (DAK) sector shows a higher level of volatility than the PAD, reflecting the volatility of transfer fund flows from the central government. Entering 2023 and 2024, DAK is likely to stabilize. However, at the end of the observation period (2025), there was a significant decline again. These

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fluctuations indicate the vulnerability of regional budgets to dynamic national fiscal policies. The vulnerability of this regional budget is clearly reflected in the financial posture of the Regional Budget Realization Report of Gorontalo Province as presented in the Figure below.

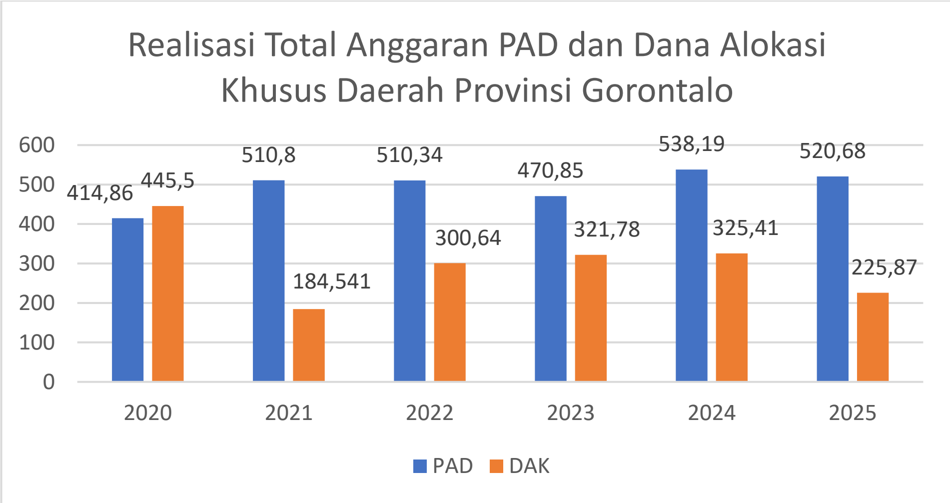

Figure 1 Budget Realization Report

Source : LRA (Data processed)

From Figure 1, based on the data presented in the graph above, it can be seen the dynamics of the realization of the Regional Original Revenue Budget (PAD) and Special Allocation Funds (DAK) in Gorontalo Province during the period 2020 to 2025. Visually, PAD shows a growth trend that tends to be positive and stable. In contrast, the realization of DAK shows fairly high volatility with sharp fluctuations.

Comparatively, there is a shift in dominance between the two sources of funding. In 2020, DAK's contribution was still higher than that of PAD, which shows considerable fiscal dependence on the central government at the beginning of the observation period. However, from 2021 to 2025, the realization of PAD has consistently exceeded DAK's achievements. The dominance of PAD over the widening DAK reflects efforts to strengthen the regional fiscal structure.

The phenomenon that emerges from this data is the disconnection between PAD growth and DAK stability. On the one hand, the increase in PAD signals an increase in economic independence, but on the other hand, fluctuations in DAK create uncertainty in financing specific sector-specific development that is usually funded by special allocations. This gap shows that although Gorontalo Province has succeeded in spurring its internal revenues, the region's total fiscal capacity remains vulnerable because it is not balanced with the stability of central fund transfers (DAK). This imbalance raises questions about the effectiveness of central-regional fiscal policy synchronization and the extent to which PAD growth is able to compensate for the instability of transfer funds in supporting the sustainability of regional infrastructure development.

Fluctuations and vulnerability in fiscal capacity to central transfer funds (DAK) do not only occur at the provincial level. As an autonomous entity located in

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the same region, the district and city governments in Gorontalo are also faced with similar challenges, but with different characteristics of the Regional Original Revenue (PAD) base. If provinces rely on macro taxes, districts/cities rely heavily on consumption taxes and local levies. This difference in the revenue base raises the urgency to examine whether fluctuations in DAK and PAD growth have the same impact on financial performance at the provincial and district/city levels. Therefore, the merger of analysis between provincial and regency/city government entities in Gorontalo is very crucial to get a complete picture of the overall regional financial independence ecosystem.

According to (Machmud & Radjak 2020), spending efficiency is the ability of the government or organization to use the available budget optimally, so that every rupiah spent produces maximum benefits or outputs without wasting resources. Meanwhile (Azwar 2021), regional financial independence is a condition when financing the implementation of local government is carried out independently from the original regional revenue.

A clear and well-organized financing structure is essential in supporting regional financial accountability and transparency. According to the Indonesian Ministry of Finance, transparency and accountability are the two main pillars of good governance. The findings (N. Panigoro et al. 2023) reinforce the importance of increasing accountability in the management of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) in the provincial and regency/city governments of Gorontalo. Low accountability has the potential to exacerbate DAK fluctuations and hinder the optimization of PAD, so strengthening accountable and participatory governance is an urgent need to realize better regional fiscal independence.

Transparent and accountable regional financial management has a very crucial role in ensuring that Regional Original Revenue (PAD) is managed optimally and can be accounted for to the public. PAD is a source of regional revenue derived from the economic potential in its own region, so its existence is an important indicator in assessing the level of independence of a region.

According to Wulandari (2023:23), Regional Original Revenue is all revenue obtained by local governments from sources in their own territory that is collected based on the provisions of applicable laws and regulations. In line with that, Mahfudh (2022) stated that PAD is sourced from the economic activities of the region itself, while Fatmawatie (2020) emphasized that PAD reflects the level of fiscal independence of a region because the greater the contribution of PAD to regional income, the higher the region's ability to finance needs and development independently.

Performance in regional financial management plays an important role in encouraging the effective and targeted use of the budget, one of which is through the use of Special Allocation Funds (DAK). DAK is a fund sourced from the State Revenue and Expenditure Budget (APBN) which is allocated to certain regions to

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finance special activities that are regional affairs and are in line with national priorities. Based on the provisions of Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD Law), DAK is defined as funds derived from state budget revenues allocated to certain regions with the aim of supporting the funding of special activities in accordance with regional authorities and national priorities.

The consistency and phenomenon of fluctuations in regional financial performance have been a concern in various studies. (Machmud and Radjak 2018) prove that Regional Original Revenue (PAD) and Special Allocation Funds (DAK) together have a significant effect on the financial performance of local governments. The results of the study show that optimally managed PAD is able to increase fiscal independence, while dependence on central transfer funds, especially DAK, is still an important factor in determining the financial performance of local governments. In line with that, (Putri and Ratnawati 2023) also found that PAD growth reflects the success of fiscal decentralization, but the instability of transfer funds still affects the effectiveness of budget realization.

Given the significant differences in financial posture between provincial government entities and district/city governments, comprehensive testing by combining the two levels of government is important to obtain a complete picture of the fiscal ecosystem in Gorontalo Province. Fluctuations in PAD growth, high DAK volatility, and still vulnerable regional fiscal capacity indicate the need for further testing of the effectiveness of central and regional fiscal policy synchronization and the extent to which increasing PAD is able to compensate for DAK instability as highlighted by previous studies. Therefore, this study aims to analyze the influence of Regional Original Revenue on the financial performance of local governments, the influence of Special Allocation Funds on the financial performance of local governments, and the simultaneous effect of Regional Original Revenue and Special Allocation Funds on the financial performance of local governments in the Gorontalo Provincial Government and district/city governments in Gorontalo Province.

LITERATURE REVIEW

Theory Agency

(Lesmono & Siregar, 2021) Agency theory is a theory that explains the relationship between the company's management as an agent and the capital owner as the principal. Agency theory explains that agency relationships arise when one or more people (principals) hire another person (agent) to provide a service and then delegate decision-making authority to that agent.

From the perspective of agency theory, the relationship between the community or the central government as the principal and the local government as an agent is very important in managing regional finances. Regional Original Revenue (PAD) reflects the level of fiscal independence of local governments, where the community expects PAD to be managed optimally and accountably. Meanwhile, the Special Allocation Fund (DAK)

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sourced from the central government aims to finance certain activities in the regions. In the context of agency theory, the inefficient use of DAK can cause conflicts of interest between the central and regional governments. Agency theory emphasizes that an appropriate system of supervision, transparency, and incentives is needed to minimize conflicts and improve the accountability and financial performance of local governments.

Financial Performance of Local Governments

The financial performance of local governments is the ability of local governments to manage financial resources effectively, efficiently, and accountably to support the implementation of government and regional development. According to (Blongkod 2021), the financial performance of local governments is the ability of a region to explore and manage original regional financial resources to meet the needs of government administration, community services, and regional development without relying entirely on the central government.

In this study, the financial performance of local governments was measured using the Regional Financial Independence Ratio. This ratio describes the ability of local governments to finance the implementation of government and development by relying on Regional Original Revenue (PAD) compared to funds from the central government and provincial governments. The higher the ratio of regional financial independence, the higher the level of fiscal independence of local governments, which indicates the lower the dependence on transfer funds.The Regional Financial Independence Ratio is calculated using the following formula.

$$\frac{\text{Pendapatan Asli Daerah}}{\text{Dana Transfer}} \times 100\%$$

Figure 2 Regional Financial Independence Ratio

Regional Original Revenue

Based on article 1 of Law Number 33 of 2004, Regional Original Revenue, hereinafter referred to as PAD, is revenue obtained from sources in its own territory that is collected based on regional regulations in accordance with applicable laws and regulations. According to Iryanie (2017:23), Regional Original Revenue (PAD) is all revenues obtained by regions from sources in their own territory that are collected based on applicable laws. The regional revenue sector plays a very important role, because through this sector it can be seen the extent to which a region can finance government activities and regional development.

In an effort to achieve independent financial performance, PAD's contribution to the fiscal structure is measured using the Regional Financial Capability Ratio. This ratio is the result of the division between the total Regional Original Revenue and the Total Regional Revenue as a whole. This indicator is crucial to assess the extent to which the PAD component is able to dominate the total regional revenue compared to other components of the balance fund. The following is the formula of Regional Original Revenue. The following is the formula of the Regional Original Revenue

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$$\frac{\text{Pendapatan Asli Daerah}}{\text{Total Pendapatan Daerah}} x100\%$$

Figure 3 Regional Original Revenue Ratio

Special Allocation Fund

Special Allocation Funds (DAK) are funds sourced from the State Revenue and Expenditure Budget (APBN) which is allocated to certain regions with the aim of funding special activities that are national priorities and in accordance with local government affairs. According to (Iryanie 2017:12), the Special Allocation Fund is the allocation of the State Revenue and Expenditure Budget to certain provinces/districts/cities with the aim of funding special activities that are local government affairs and in accordance with national priorities. Based on Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments Article 39, Special Allocation Funds are allocated to certain regions to fund special activities that are regional affairs in accordance with the functions stipulated in the State Budget.

In the fiscal decentralization scheme, the distribution of DAK is allocated to both provincial governments and district/city governments in accordance with the authority of their respective government affairs. Provincial governments generally manage DAK for sectors that include cross-district/city scale or regional-level infrastructure, while district/city governments manage DAK for basic services on a local scale. The alignment of DAK absorption at the two levels of government is an important indicator in assessing the efficiency of expenditure management, which leads to the achievement of the financial performance of the local government as a whole.

In addition to relying on internal potential, regional financial structures are also supported by central assistance through the Special Allocation Fund (DAK) to fund specific sectors. The level of regional dependence on central funding assistance is measured through a comparison between the amount of Special Allocation Funds received and the Total Regional Revenue in a budget period. Through this formula, it can be identified how much of the portion of priority sector funding is financed by the central government compared to the total fiscal capacity of the regions. The following is the formula of the Special Allocation Fund.

$$\frac{\text{Dana Alokasi Khusus}}{\text{Total Pendapatan Daerah}} x100\%$$

Figure 4 Special Allocation Funds

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Framework

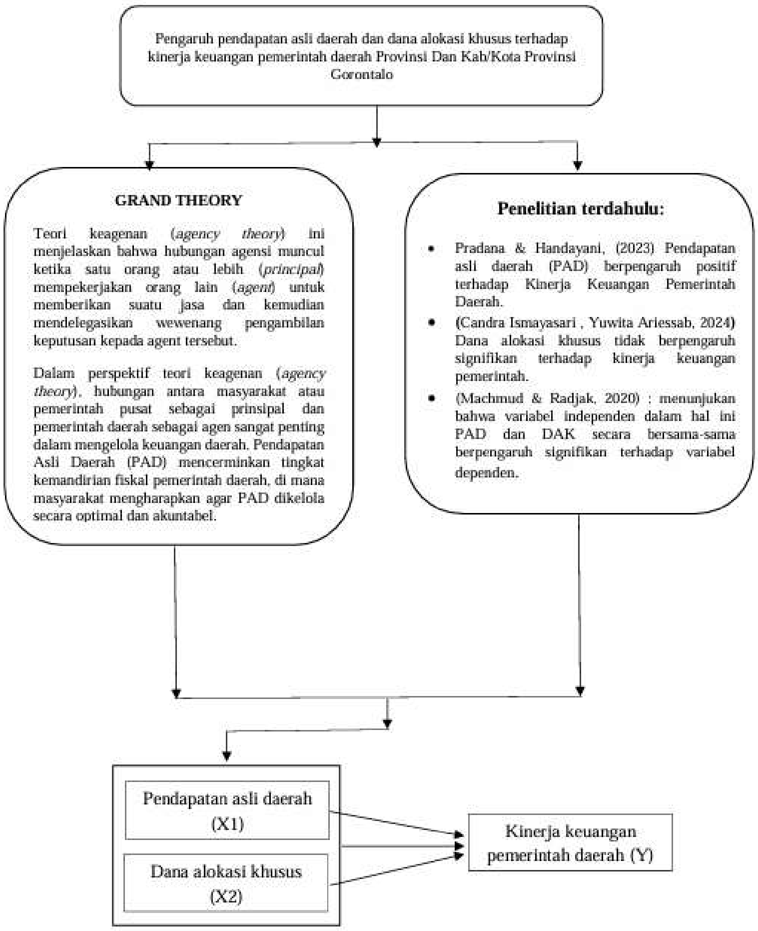

Figure 5. Concept of thinking

Hypothesis

To obtain a provisional answer to the formulation of the problem based on theoretical studies, the following hypothesis is formulated:
H1: It is suspected that Regional Original Revenue (PAD) has a positive effect on the Financial Performance of the Regional Government.
H2: It is suspected that the Special Allocation Fund does not have a significant effect on the Government's Financial Performance.
H3: It is suspected that the independent variables, in this case PAD and DAK, together have a significant effect on the dependent variables.

METHODOLOGY

This study uses a quantitative approach with an associative research design to analyze the influence of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) on the Financial Performance of Provincial and Regency/City Governments in Gorontalo Province. The data used is secondary data sourced from the Provincial and Regency/City Government Budget Realization Report in Gorontalo Province for the 2020-2025 period which was obtained through the Directorate General of Fiscal Balance of the Ministry of Finance of the Republic of Indonesia (djpk.kemenkeu.go.id). The population as well as the sample in this study uses saturated sampling techniques, which can be seen in the table below:

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Table 2 List of Population and Samples in Cities/Regencies of Gorontalo Province in 2020-2025

NO	Nama Kota/Kabupaten provinsi gorontalo
1	Kota Gorontalo
2	Kabupaten Gorontalo
3	Kabupaten Bone Balongo
4	Kabupaten Gorontalo Utara
5	Kabupaten Boalemo
6	Kabupaten Pohuwato
7	Provinsi Gorontalo

The data used in this study includes data on Regional Original Revenue (PAD), Special Allocation Funds (DAK), and Regional Government Financial Performance during the 2020–2025 period obtained from the Regional Government Budget Realization Report.

Table 3 Original Revenue Data for Regencies/Cities in Gorontalo Province in 2020–2025

No	Kota/Kab	PAD	Tahun					
			2020	2021	2022	2023	2024	2025
1.	Kota Gorontalo	Pajak daerah	53.23	66.04	81.10	85.84	91.34	117,50
		Retribusi Daerah	20.60	34.88	36.84	42.30	227.05	200,79
		Hasil Pengelolaan kekayaan daerah yang dipisahkan	2.60	3.28	3.44	5.99	5.40	5,03
		Lain-lain PAD yang sah	161.27	193.13	103.45	184.61	16.91	9,97
2.	Kab. Gorontalo	Pajak daerah	30.72	28.90	32.44	29.96	33.97	68.10
		Retribusi daerah	2.59	3.63	5.21	5.43	109.61	111.31
		Hasil pengelolaan kekayaan daerah yang dipisahkan	3.08	3.55	3.06	4.54	4.10	3.82

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No	Kota/Kab	PAD	Tahun					
			2020	**2021**	**2022**	**2023**	**2024**	**2025**
		Lain-lain PAD yang sah	91.77	86.39	87.75	104.98	17.09	6,62
3.	Kab.Bone Bolango	Pajak daerah	9.74	11.60	14.95	16.07	15.07	30,32
		Retribusi daerah	4.84	11.38	8.14	10.16	86.67	71,85
		Hasil pengelolaan kekayaan daerah yang dipisahkan	1.19	2.00	1.42	2.30	2.06	2,32
		Lain-lain PAD yang Sah	59.37	65.55	66.42	94.54	5.92	6,06
4.	Kab.Gorontalo utara	Pajak daerah	5.95	6.59	7.26	7.20	9.03	15.96
		Retribusi daerah	8.25	7.90	6.74	11.86	1.63	1.78
		Hasil pengelolaan kekayaan daerah yang dipisahkan	2.41	2.77	2.58	4.00	3.61	3.50
		Lain-lain PAD yang sah	10.73	10.42	4.82	5.42	31.14	12,91
5.	Kab. Boalemo	Pajak Daerah	6.1	6.01	6.71	7.77	9.05	15.22
		Retribusi daerah	2.50	4.91	4.84	2.01	1.14	1,23
		Hasil Pengelolaan Kekayaan yang dipisahkan	5.62	6.47	5.71	8.48	7.64	7.12
		Lain-lain PAD yang sah	35.2	37.3	25.25	51.03	60.53	48.86
6.	Kab. Pohuwato	Pajak Daerah	8.24	11.49	13.37	18.04	18.11	35.54
		Retribusi daerah	3.97	4.98	5.34	5.68	5.65	50.51
		Hasil pengelolaan kekayaan daerah yang dipisahkan	2.20	2.53	2.19	3.24	2.92	2.73

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No	Kota/Kab	PAD	Tahun					
			2020	2021	2022	2023	2024	2025
		Lain-lain PAD yang sah	36.53	52.98	44.15	59.42	59.42	3.74
7.	Provinsi	Pajak Daerah	352,17	400,75	440,54	400,81	457,23	431,70
		Retribusi daerah	6,50	5,74	5,00	3,97	54,31	60,16
		Hasil pengelolaan kekayaan daerah yang dipisahkan	3,23	5,09	5,59	11,01	11,58	11,52
		Lain-lain PAD yang sah	52,96	99,22	59,20	55,05	15,07	17,25

Table 4 Data Dana Alokasi Khusus Kabupaten/Kota di Provinsi Gorontalo Tahun 2020-2025

No	Kota/Kab	Tahun					
		2020	2021	2022	2023	2024	2025
1.	Kab. Pohuwato	227,79	155,95	182.08	184,76	173,52	157,14
2.	Kab. Boalemo	153,9	173,71	176.45	175.52	142,78	157,29
3.	Kab. Gorontalo Utara	158,58	140,59	207,94	155,33	148,1	125,14
4.	Kab. Gorontalo	266,44	259,85	260,06	301,44	313,1	259,78
5.	Kab. Bone Bolango	163,32	211,54	151,75	162,71	175,24	157,41
6.	Kota Gorontalo	124,75	119,98	121,04	132,5	134,44	103,16
7.	Provinsi	445,5	445,05	300,64	321,78	325,41	225,87

Table 5 Regency/City Financial Performance Data in Gorontalo Province as measured by the Regional Financial Independence Ratio in 2020-2025

Kab/Kota	Tahun	PAD	Dana Transfer	%
Kab. Pohuwato	2020	50,95	755,71	6,74
	2021	71,99	694,79	10,36
	2022	65,05	722,34	9
	2023	86,39	715,01	12,08
	2024	86,1	719,93	11,95

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Kab/Kota	Tahun	PAD	Dana Transfer	%
	2025	92,52	696,19	13,28
Kab. Boalemo	2020	49,42	607,44	8,13
	2021	54,7	610,18	8,96
	2022	42,51	617,64	6,88
	2023	69,29	629,68	11
	2024	78,36	617,17	12,69
	2025	72,43	633,91	11,42
Kab. Gorontalo Utara	2020	27,34	596,59	4,58
	2021	27,68	558,08	4,96
	2022	21,39	600,47	3,56
	2023	28,48	564,64	5,04
	2024	45,41	566,76	8,01
	2025	34,15	547,22	6,24
Kab. Gorontalo	2020	128,16	925,98	13,84
	2021	122,47	917,5	13,34
	2022	128,46	897,15	14,31
	2023	144,9	980,15	14,78
	2024	164,77	1043,8	15,78
	2025	189,85	1038,9	18,27
Kab. Bone Bolango	2020	75,15	682,45	11,01
	2021	90,52	731,63	12,37
	2022	90,93	640,26	14,2
	2023	123,07	656,16	18,75
	2024	110,35	691,62	15,95
	2025	110,55	697,15	15,85
Kota Gorontalo	2020	237.7	659.62	36.03
	2021	297.33	672.57	44.2
	2022	224.83	634.84	35.41
	2023	318.74	693.87	45.93
	2024	340.7	707.77	48.13
	2025	333.29	687.12	48.5
Provinsi	2020	414,86	1.444,47	28,72
	2021	510,80	1.464,48	34,88
	2022	510,34	1.339,39	38,10
	2023	470,85	1.361,8	34,58
	2024	538,19	1.349,81	39,87
	2025	520,68	1.290,49	40,35

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The data collection method uses a documentation method by collecting budget realization reports published through the Directorate General of Financial Balance of the Ministry of Finance of the Republic of Indonesia, and supported by various relevant literature and previous research. Data analysis was carried out using the IBM SPSS 26 application which included descriptive statistical analysis, classical assumption test consisting of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, then continued with multiple linear regression analysis to test the influence of Regional Original Revenue and Special Allocation Funds on the Financial Performance of Regional Governments. Hypothesis testing was carried out through a t-test to determine the influence of variables partially, an F test to determine the influence of variables simultaneously, and a determination coefficient (Adjusted R^2) to measure the model's ability to explain variations in the Financial Performance of Local Governments.

RESULTS AND DISCUSSION

Descriptive Statistical Test Results

Table 6 Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	42	2.33	32.37	15.7481	9.21001
X2	42	10.02	40.04	21.9810	7.98705
Y	42	3.56	48.51	19.2319	13.82579
Valid N (listwise)	42				

Source: SPSS 26 output, Processed Secondary Data

Based on the results of descriptive statistics, the number of research data (N) is 42. The Regional Original Revenue (X_1) variable has a minimum value of 2.33, a maximum of 32.37, an average of 15.7481, and a standard deviation of 9.21001. The Special Allocation Fund variable (X_2) has a minimum value of 10.02, a maximum of 40.04, an average of 21.9810, and a standard deviation of 7.98705. Meanwhile, the variable Financial Performance of Local Governments (Y) has a minimum value of 3.56, a maximum of 48.51, an average of 19.2319, and a standard deviation of 13.82579. The standard deviation values in the three variables showed that there was a variation in data between districts/cities during the study period.

Data Analysis

1. **Classic Assumption Test**

Normality Test

The following figure shows the results of the normality test using a histogram against standardized residual (Regression Standardized Residual) on the dependent variable of financial performance. This normality test aims to find out whether the residual data in the regression model is normally distributed, which is one of the requirements in the classical assumption test.

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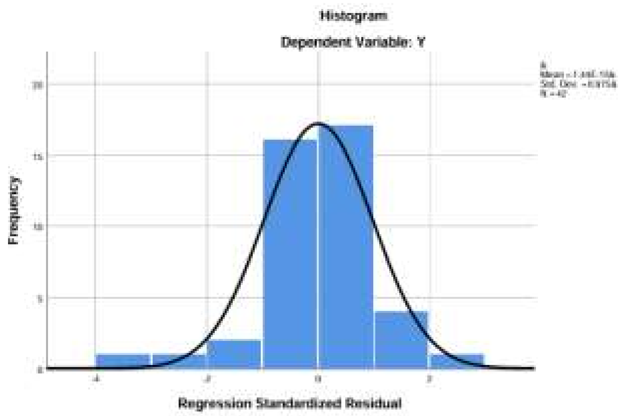
Figure 7 Normality Test Histogram Graph

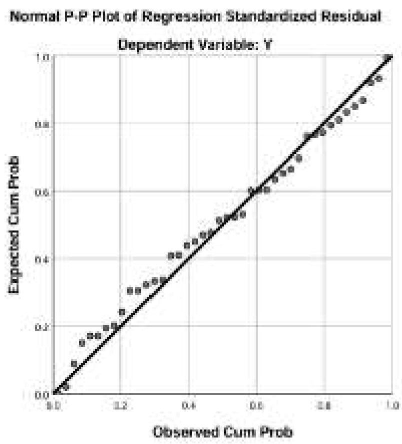


Source: SPSS 26 output, Processed Secondary Data

Based on the histogram above, it can be seen that the residual data distribution pattern forms a bell-shaped curve and spreads evenly around the center line or value 0. In addition, the residual mean value of 4.41E-15 or close to 0 with a standard deviation of 0.975 and the number of data (N) as many as 42 indicates that the residual spread is in good condition. Thus, based on the results of the residual histogram, it can be concluded that the research data has met the assumption of normality, so the regression model is suitable for further analysis.

In addition to using histograms, normality tests are also carried out by looking at the Normal Probability Plot (Normal P-P Plot) graph. If the points on the graph are spread around the diagonal line and follow the direction of the line, then the data can be said to be normally distributed. The results of the Normal P-P Plot test can be seen in the following image.

Figure 8 Test Normality with P-Plot



Source: SPSS 26 output, Processed Secondary Data

Based on the Normal P-P Plot graph, it can be seen that the residual points are spread around the diagonal line and follow the direction of the diagonal line. The spread of the dots does not show a pattern of deviation far from the line, thus suggesting that the residual distribution is close to the normal distribution. Thus, the regression model in this study has met the assumption of normality and is suitable for future testing.

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Multicollegiate Test

The multicollinearity test aims to find out whether there is a high relationship or correlation between independent variables, namely Regional Original Revenue (PAD) and Special Allocation Funds (DAK). The test was carried out by looking at the value of Tolerance and Variance Inflation Factor (VIF).

Table 9 Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	X1	.977	1.024
	X2	.977	1.024

a. Dependent Variable: Y

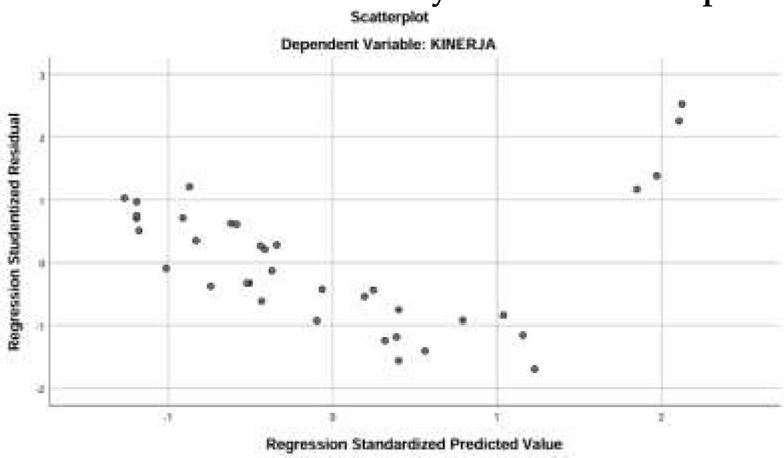
Source: SPSS 26 output, Processed Secondary Data

Based on the Coefficients table, the variables of Regional Original Revenue (X1) and Special Allocation Funds (X2) each have a Tolerance value of 0.977 and VIF of 1.024. The Tolerance value > 0.10 and the VIF < 10 indicate that there is no multicollinearity in the regression model. Thus, the regression model has met the assumptions of multicollinearity and is suitable for use for further analysis.

Heteroscedasticity test

The heteroscedasticity test was carried out using a scatterplot graph between Regression Standardized Predicted Value and Regression Studentized Residual to determine whether or not there is an inequality of residual variance in the regression model.

Table 10 Heteroscedasticity Test with Scatterplot



Source: SPSS 26 output, Processed Secondary Data

Based on a scatterplot graph, the data points are randomly spread above and below the number 0 on the Y-axis and do not form a specific pattern. This shows that the regression model does not experience heteroscedasticity. Thus, the regression model has met the heteroscedasticity assumptions and is feasible to use for further analysis.

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Autocorrelation Test

The autocorrelation test was carried out using the Durbin-Watson (DW test) to find out whether or not there is a correlation between residuals in the regression model.

Table 11 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.992[a]	.984	.983	1.81515	1.387

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Source: SPSS 26 output, Processed Secondary Data

Based on the results of the Model Summary, an R value of 0.992 was obtained which shows a very strong relationship between independent variables and dependent variables. The Adjusted R Square value of 0.983 indicates that 98.3% of the variation in Financial Performance can be explained by Regional Original Revenue and Special Allocation Funds, while the remaining 1.7% is explained by other variables. The Durbin-Watson value of 1.387 is close to 2, indicating that the regression model does not suffer from autocorrelation problems and is suitable for further analysis.

Model Regresi Linier Berganda

Multiple linear regression analysis was used to determine the influence of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) on the Financial Performance of Regional Governments.

Table 12 Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	10.023	1.029		9.737	.000
	X1	1.343	.031	.894	43.115	.000
	X2	-.543	.036	-.314	-15.121	.000

a. Dependent Variable: Y

Source: SPSS 26 output, Processed Secondary Data

Based on the coefficient table, the regression equation is obtained:

$Y = 10.023 + 1.343X_1 - 0.543X_2$

A constant value of 10.023 indicates that if PAD and DAK are zero, then the Financial Performance is 10.023. The PAD variable (X_1) has a regression coefficient of 1.343 with a significance value of 0.000 < 0.05, so that it has a positive and significant effect on Financial Performance. Meanwhile, the DAK variable (X_2) has a regression coefficient of -0.543 with a significance value of 0.000 < 0.05, so that it has a negative and significant effect on Financial Performance.

Thus, partially PAD has a positive and significant effect, while DAK has a negative and significant effect on the Financial Performance of Regional Governments.

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Hypothesis Testing

T Test

The t-test was conducted to determine the influence of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) partially on the Financial Performance of Regional Governments.

Table 13 Testing Results t

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	10.023	1.029		9.737	.000
	X1	1.343	.031	.894	43.115	.000
	X2	-.543	.036	-.314	-15.121	.000

a. Dependent Variable: Y

Source: SPSS 26 output, Processed Secondary Data

Based on the results of the t-test, the variable of Regional Original Revenue (PAD) obtained a t-calculated value of 43.115 with a significance level of 0.000 < 0.05, so that H1 was accepted. This shows that PAD has a positive and significant effect on the Financial Performance of Regional Governments.

The Special Allocation Fund (DAK) variable obtained a t-calculation value of -15.121 with a significance level of 0.000 < 0.05, so that H2 was received with a negative relationship direction. This shows that DAK has a negative and significant effect on the Financial Performance of Regional Governments.

In addition, the Standardized Coefficients Beta value shows that PAD (0.894) has a more dominant influence than DAK (-0.314) on the Financial Performance of Regional Governments.

The Influence of Regional Original Revenue on Financial Performance

Based on the results of the t-test in Table 4.5, a t-calculated value of 43.115 was obtained with a significance of 0.000 < 0.05, so that H1 was accepted. This means that Regional Original Revenue (PAD) has a positive and significant effect on the Financial Performance of Regency/City Regional Governments in Gorontalo Province.

The high PAD reflects the ability of the regions to finance regional needs independently without relying entirely on the central government. The Standardized Coefficients Beta value of 0.894 indicates that PAD is the most dominant variable influencing Financial Performance.

This result is in line with Agency Theory, where local governments as agents are expected to be able to manage regional resources optimally. Empirically, the data in Table 5 shows that areas with high PAD realization, such as Gorontalo City, have a better financial independence ratio during the 2020–2025 period. The results of this study are also in line with the research (Pradana & Handayani 2023) and (Okadria 2025).

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The Effect of Special Allocation Funds on Financial Performance

Based on the results of the t-test in Table 13, the variable of the Special Allocation Fund (DAK) obtained a t-calculation value of -15.121 with a significance of 0.000 < 0.05, so that H2 was accepted in the direction of a negative relationship. The regression coefficient of -0.543 indicates that the increase in DAK was followed by a decrease in Financial Performance.

These results show that the larger the proportion of DAK, the more the financial independence ratio tends to decrease because DAK is a transfer fund from the central government whose use has been determined for certain sectors. DAK fluctuations during the 2020–2025 period also show uncertainty in regional financing.

Based on Agency Theory, inefficient absorption of DAK or mismatch between central priorities and regional needs can hinder the optimization of financial performance. The results of this study are in line with research (Candra Ismayasari & Yuwita Ariessa 2024) which shows that DAK has the potential to have a negative effect on regional financial independence if not managed efficiently.

Test F

The F test was conducted to find out whether Regional Original Revenue (PAD) and Special Allocation Funds (DAK) simultaneously affect the Financial Performance of the Regional Government.

Table 14 Results of Simultaneous Significance Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7708.752	2	3854.376	1169.845	.000[b]
	Residual	128.496	39	3.295		
	Total	7837.249	41			

a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

Source: SPSS 26 output, Processed Secondary Data

Based on the results of the ANOVA test, an F value of 1169.845 was obtained with a significance value of 0.000 < 0.05. This shows that PAD and DAK simultaneously have a significant effect on the Financial Performance of Regional Governments. Thus, the regression model used is feasible to explain the influence of the two independent variables on the dependent variables.

Coefficient of Determination (R^2)

The determination coefficient is used to determine the ability of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) in explaining variations in Regional Government Financial Performance.

Table 15 Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.983	1.81515

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Source: SPSS 26 output, Processed Secondary Data

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Based on the results of the Model Summary, an R value of 0.992 was obtained which shows a very strong relationship between independent variables and dependent variables. The Adjusted R Square value of 0.983 indicates that 98.3% of the variation in Financial Performance can be explained by PAD and DAK, while the remaining 1.7% is influenced by other variables outside the study. The Std. Error of the Estimate value of 1.81515 indicates that the regression model has a relatively small rate of prediction error.

Based on the results of partial hypothesis testing, the Regional Original Revenue (PAD) variable is proven to have a positive and significant effect on the Financial Performance of Local Governments in Regencies/Cities in Gorontalo Province. This is indicated by a calculated t-value of 43.115 with a significance level of 0.000 which is smaller than 0.05. Thus, the first hypothesis (H1) which states that Regional Original Revenue has a positive and significant effect on the Financial Performance of Regional Governments is declared accepted. The regression coefficient of 1.343 indicates that any increase in Regional Original Revenue will improve the Financial Performance of Regional Government. These results indicate that the higher the ability of local governments to explore regional revenue potential through taxes, levies, and other sources of income, the better the level of regional independence and financial performance. This finding is in line with Agency Theory which explains that local governments as agents have the responsibility to manage regional resources effectively in order to meet the interests of the community as principals. In addition, the results of this study are also consistent with research (Pradana and Handayani 2023) and (Okadria (2025) which states that Regional Original Revenue has a positive and significant effect on the financial performance of local governments.

Furthermore, based on the results of partial hypothesis testing, the Special Allocation Fund (DAK) variable was proven to have a negative and significant effect on the Financial Performance of the Regional Government. This is indicated by a calculated t-value of -15.121 with a significance level of 0.000 which is smaller than 0.05. Therefore, the second hypothesis (H2) is accepted with the direction of the negative relationship. The value of the regression coefficient of -0.543 indicates that any increase in the Special Allocation Fund tends to decrease the Financial Performance of the Regional Government. This result indicates that the greater the dependence of local governments on the Special Allocation Fund, the level of regional financial independence tends to decrease because DAK is a transfer fund whose use has been determined by the central government so that the space for local governments to manage the budget becomes more limited. These findings also support Agency Theory which explains that dependence on transfer funds can reduce the effectiveness of local governments in managing financial resources independently. The results of this study are in line with research (Candra Ismayasari and Yuwita Ariessa 2024) which shows that the Special Allocation Fund has a negative influence on the independence or financial performance of local governments if their management has not been able to encourage an increase in regional fiscal capacity.

Based on the results of simultaneous hypothesis testing (F test), the variables of Regional Original Revenue (PAD) and Special Allocation Funds (DAK) together have a significant effect on the Financial Performance of Local Governments in Regencies/Cities in Gorontalo Province. This is evidenced by the calculated F-value

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of 1169.845 and the significance level of 0.000 which is smaller than 0.05, so that the third hypothesis is accepted. These results show that changes in the Financial Performance of Local Governments can be explained together by Regional Original Revenue and Special Allocation Funds. In addition, the Adjusted R Square value of 0.983 shows that the two independent variables are able to explain 98.3% of the variation in the Financial Performance of Local Government, while the remaining 1.7% is influenced by other factors outside the research model. Thus, the regression model used has an excellent ability to explain the relationship between Regional Original Revenue, Special Allocation Funds, and Regional Government Financial Performance. The results of this study are in line with the research (Machmud and Radjak 2020) which states that Regional Original Revenue and Special Allocation Funds simultaneously have a significant effect on the Financial Performance of Regional Governments.

CONCLUSION

Based on the results of data analysis and hypothesis testing, it can be concluded that Regional Original Revenue (PAD) has proven to have a positive and significant effect on the Financial Performance of Regency/City Regional Governments in Gorontalo Province. This shows that the higher the ability of local governments to explore the potential of regional revenue through local sources of revenue, the better the level of financial performance achieved. On the contrary, the Special Allocation Fund (DAK) has been proven to have a negative and significant effect on the Financial Performance of Regional Governments. These results indicate that the greater the dependence of local governments on special transfer funds from the central government, the level of regional financial independence tends to decrease. However, simultaneously Regional Original Revenue (PAD) and Special Allocation Funds (DAK) have proven to have a significant effect on the Financial Performance of Regional Governments in Gorontalo Province. This shows that the financial performance of local governments is influenced by the ability of the regions to optimize the region's original revenue and the management of transfer funds from the central government. In addition, the determination coefficient value of 98.3% shows that the two variables have a very high ability to explain variations in the Financial Performance of Local Governments during the study period.

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